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BILTMORE
ANNUAL
REPORT
1978



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BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

six year financial summary

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Income						
Sales	\$14,814,188	\$10,895,305	\$8,807,211	\$7,793,668	\$6,853,181	\$6,058,752
Net income for year	545,038	353,703	280,078	234,926	236,634	220,527
Earnings per share						
Undiluted	\$1.73	\$1.08	83c	67c	68c	63c
Fully diluted	\$1.22	79c	63c	51c	52c	48c
Financial Position						
Working Capital	2,107,543	1,533,638	1,385,389	1,203,730	1,059,667	894,065
Fixed Assets—net	360,545	462,430	347,655	342,479	344,694	361,886
Other Assets	476,950	481,267	430,797	380,322	342,815	311,160
	2,945,038	2,477,335	2,163,841	1,926,531	1,747,176	1,567,111
Long-Term Debt	2,700	5,400	8,100	10,800	13,500	16,700
Deferred income taxes	12,800	28,700	13,300	400	—	—
	15,500	34,100	21,400	11,200	13,500	16,700
Shareholders' Equity	\$2,929,538	\$2,443,235	\$2,142,441	\$1,915,331	\$1,733,676	\$1,550,411

the president's report

Dear Shareholder:

On behalf of the Board of Directors, I am pleased to present the Annual Report.

Earnings for the year ending December 31, 1978 were up 54.1% at \$545,038 or \$1.22 per share fully diluted compared with \$353,703 or \$.79 per share for the previous year. Working capital increased by \$573,905 during the year bringing total working capital to \$2,107,543 or \$4.52 per share based on 446,150 shares.

All divisions of the company did well relative to last year. Headwear sales were up again in 1978 reflecting continued interest in our casual styles. Profits compared favourably to last year in spite of sharply rising raw material costs. Since many of our hat materials are imported, the decline in the exchange value of the Canadian dollar has particularly affected our costs in the past year.

Sales and profits from Watson Bros. Ltd., our neckwear subsidiary, are well ahead of last year. In the past year the neckwear factory has been completely re-organized. Benefits from this re-organization are reflected in the last half of the year.

We are very encouraged by the performance of Custom Leather Products Limited. The automotive division, in its second full year of operations, contributed significantly to the corporation's sales and profits. All capital expenditures for the automotive division are being written off over the life of the relevant contracts. The effect of this can be seen in the balance sheet. While our fixed assets at cost have increased from \$1,631,073 in 1976 to \$1,984,700 in 1978, our undepreciated fixed assets have increased from \$347,655 in 1976 to only \$360,545 in 1978. The consumer leather products division, principally men's belts, also increased its contribution to the corporation's profits.

Our inventory at year-end is up reflecting greater automotive, leather belt, and neckwear commitments, that are necessary to support the increased activity in these commodities. Likewise, accounts receivable are up reflecting greater sales in the latter part of the year.

We express our appreciation for the full support and co-operation of our co-workers and many customers throughout North America who have contributed to our success in 1978.

Yours very truly,



Michael McMillan,
President.

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BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

consolidated statement of income

	Year Ended December 31	
	1978	1977
Sales	\$14,814,188	\$10,895,305
Cost of sales	10,774,594	7,701,658
Selling, general and administrative expenses	3,128,456	2,625,744
	<u>13,903,050</u>	<u>10,327,402</u>
Income before taxes	911,138	567,903
Income taxes:		
Current	382,000	198,800
Deferred	(15,900)	15,400
	<u>366,100</u>	<u>214,200</u>
Net Income	<u>\$545,038</u>	<u>\$ 353,703</u>
Earnings per common share based on the weighted average number of shares outstanding during the year:	\$1.73	\$1.08
Fully diluted earnings per share (Note 1)	\$1.22	\$0.79

consolidated statement of retained earnings

Balance at beginning of year	\$2,207,772	\$1,906,978
Net income	<u>545,038</u>	<u>353,703</u>
	<u>2,752,810</u>	<u>2,260,681</u>
Dividends:		
Preferred shares	38,201	38,267
Common shares	<u>20,534</u>	<u>14,642</u>
	<u>58,735</u>	<u>52,909</u>
Balance at end of year	<u>\$2,694,075</u>	<u>\$2,207,772</u>

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

consolidated balance sheet

Assets

	December 31	
	1978	1977
Current:		
Cash	\$ 113,686	\$ 199,102
Accounts receivable	2,427,995	1,607,035
Inventories (Note 2)	3,373,761	2,680,482
Prepaid expenses	1,000	1,706
	5,916,442	4,488,325
Cash surrender value of life insurance	—	4,317
Fixed assets, at cost (Note 3)	1,984,700	1,904,384
Less - Accumulated depreciation	1,624,155	1,441,954
	360,545	462,430
Excess of cost of shares in subsidiaries over net book value of assets acquired (Note 1)	476,950	476,950
	<u>\$6,753,937</u>	<u>\$5,432,022</u>

Approved by the Board:

D. Michael McMillan, Director

George H. Montague, Director

Liabilities

	December 31	
	1978	1977
Current:		
Bank advances (Note 4)	\$2,493,732	\$1,847,219
Accounts payable and accrued liabilities	1,098,455	970,372
Notes payable	—	50,000
Income taxes payable	204,844	75,228
Dividends payable	9,168	9,168
Current portion of long-term debt	<u>2,700</u>	<u>2,700</u>
	3,808,899	2,954,687
Long-term debt payable to April 30, 1980	2,700	5,400
Deferred income taxes	<u>12,800</u>	<u>28,700</u>
	3,824,399	2,988,787
Shareholders' Equity		
Capital stock (Note 5)	235,463	235,463
Retained earnings	<u>2,694,075</u>	<u>2,207,772</u>
	<u>2,929,538</u>	<u>2,443,235</u>
	<u>\$6,753,937</u>	<u>\$5,432,022</u>

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

consolidated statement of changes in financial position

	Year Ended December 31	
	1978	1977
Financial resources were provided by:		
Operations -		
Net income	\$ 545,038	\$ 353,703
Add charges which do not affect current funds—		
Depreciation and amortization	206,128	158,536
Deferred income taxes	<u>(15,900)</u>	<u>15,400</u>
	735,266	527,639
Redemption of cash surrender value of life insurance	4,317	—
Sale of fixed assets	<u>7,985</u>	<u>—</u>
	747,568	527,639
Financial resources were used for:		
Purchase of fixed assets	112,228	273,311
Increase in cash surrender value of life insurance in subsidiary	—	470
Reduction of long-term debt	2,700	2,700
Dividends	58,735	52,909
Excess of cost of shares in subsidiary company over net book value of assets acquired	<u>—</u>	<u>50,000</u>
	<u>173,663</u>	<u>379,390</u>
Increase in working capital	573,905	148,249
Working capital at beginning of year	<u>1,533,638</u>	<u>1,385,389</u>
Working capital at end of year	<u>\$2,107,543</u>	<u>\$1,533,638</u>

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

notes to consolidated financial statements

DECEMBER 31, 1978

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Inventories

Inventories are stated at the lower of cost and net realizable value (cost being determined on a first-in first-out basis).

Fixed Assets and Depreciation

Fixed assets are carried at cost. Depreciation is calculated on a diminishing balance basis at annual rates of 5 percent on buildings, 20 percent on machinery and equipment and 30 percent on automobiles and trucks. Leasehold improvements are amortized over the life of the lease plus one renewal option term if applicable. Fixed assets and leasehold improvements used in the automotive division of a subsidiary company are depreciated and amortized over the life of the related automotive contracts, an average of one and a half years.

Deferred Income Taxes and Income Taxes payable

Deferred income taxes are provided for expense items reported for tax purposes in different periods than for financial reporting purposes, thus creating a timing difference, the tax effect of which is reflected under this heading. Provision is made for all income taxes currently payable.

Excess of Cost of Shares in Subsidiaries Over Net Book Value of Assets Acquired

The excess of purchase price of investments in subsidiary companies over the net value of the underlying tangible assets acquired is retained as an asset in the consolidated balance sheet and is not being amortized.

Earnings per Share

Earnings per common share calculations are based on the weighted average number of shares of common stock outstanding during the respective years, after net earnings are reduced for convertible preferred dividend requirements. Fully diluted earnings per share calculations assume the conversion of convertible preferred shares.

2. INVENTORIES

	December 31	
	1978	1977
Raw materials and supplies	\$1,617,363	\$1,238,140
Work-in-process	797,688	809,416
Finished goods	958,710	632,926
	<u>\$3,373,761</u>	<u>\$2,680,482</u>

3. FIXED ASSETS

	Cost	Accumulated Depreciation and Amortization	Net	December 31, 1978	December 31, 1977
Land	\$ 1,850	\$ —	\$ 1,850	\$ 1,850	\$ 1,850
Buildings	430,167	256,561	173,606	173,606	182,743
Machinery and equipment—					
Consumer divisions	1,248,637	1,089,384	159,253	159,253	166,311
Automotive division	212,319	193,857	18,462	18,462	86,916
Leasehold improvements—					
Consumer divisions	45,527	41,601	3,926	3,926	7,655
Automotive division	46,200	42,752	3,448	3,448	16,955
	<u>\$1,984,700</u>	<u>\$1,624,155</u>	<u>\$360,545</u>	<u>\$360,545</u>	<u>\$462,430</u>

4. BANK LOANS AND ADVANCES

The Company and its subsidiaries have pledged accounts receivable and inventories with a carrying value of \$5,801,756 as security for bank advances of \$2,493,732.

5. CAPITAL STOCK

a) Authorized

158,000 convertible preferred shares without par value, entitled to cumulative dividend of 25c per share per annum, each convertible into common shares on a share for share basis. 2,000,000 common shares without par value.

b) Issued -	1978	1977
152,850 convertible preferred shares	\$ 32,653	\$ 32,653
293,345 common shares	202,810	202,810
	<u>\$235,463</u>	<u>\$235,463</u>

notes to consolidated financial statements continued

c) Common shares reserved

For the conversion of convertible
preferred shares

152,805

6. REMUNERATION OF DIRECTORS AND OFFICERS

During the year ended December, 1978 the aggregate amounts paid or payable by the Company and its subsidiaries to seven directors in their capacity as directors was \$1,500 (\$1,800 in 1977) and to five officers and a director who is an officer of a subsidiary company \$211,044 (\$193,660 in 1977). Two of the directors are also officers of the Company.

7. OTHER INFORMATION

	1978	1977
Depreciation and amortization:		
Included in cost of sales	\$190,071	\$143,051
Included in selling, general and administrative expenses	16,057	15,485
	<u>\$206,128</u>	<u>\$158,536</u>
Interest:		
On current debt	<u>\$240,954</u>	<u>\$174,879</u>

auditors' report To the Shareholders of Biltmore Industries Limited:

We have examined the consolidated balance sheet of Biltmore Industries Limited and its subsidiaries as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARIES

corporate directory

HEAD OFFICE, GUELPH, ONTARIO

Board of Directors

WILLIAM A. DETENBECK, Port Credit, Ontario
JAMES W. McCUTCHEON, Toronto, Ontario
* D. MICHAEL McMILLAN, Guelph, Ontario
NORMAN McMILLAN, Guelph, Ontario
* GEORGE H. MONTAGUE, Toronto, Ontario
* JAMES R. MULLINS, Puslinch, Ontario
DAVID B. WELDON, London, Ontario

* Member of the Audit Committee

Officers

NORMAN McMILLAN, Chairman of the Board
D. MICHAEL McMILLAN, President
NORMAN B. IRWIN, C.A., Secretary-Treasurer

Subsidiary Companies

CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario
WATSON BROTHERS LIMITED, Toronto, Ontario
BILTMORE HATS (WESTERN) LIMITED, Guelph, Ontario
(non-operating)

Auditors

PRICE WATERHOUSE & CO., Kitchener, Ontario

Registrar and Transfer Agents

GUARANTY TRUST COMPANY OF CANADA, Toronto, Ontario

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE

Stock Listing

TORONTO STOCK EXCHANGE, Toronto, Ontario

BILTMORE

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BILTMORE INDUSTRIES
GUELPH CANADA Limited

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GUELPH CANADA Limited

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Six Months Report

June 30th, 1978

BILTMORE INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) SIX MONTHS ENDED JUNE 30, 1978 (with comparative figures for 1977)

Dear Shareholder:

On behalf of the Board of Directors, I am pleased to submit to you the Consolidated Statements of Income and Changes in Financial Position for the six months ending June 30, 1978. Shipments are ahead 18.9% at \$4,608,394. Profits after tax are \$12,541. vs. a restated \$8,488.

The improved sales performance largely reflects the greater automotive involvement this year. The majority of each division's shipments and profits will be realized in the last half of the year.

Bookings for fall shipments of neckwear and handkerchiefs are well ahead of last year. We also expect substantially higher automotive shipments in the coming period.

A dividend of 6c per share has been declared on the Convertible preferred shares payable on October 15, 1978 to shareholders of record September 29, 1978.

Yours very truly,

M. McMillan
President

	Restated 1977	1978
Sales	<u>\$4,608,394</u>	<u>\$3,877,027</u>
Cost of Sales	<u>3,344,609</u>	<u>2,731,346</u>
Selling, general and administrative expenses	<u>1,246,644</u>	<u>1,141,593</u>
	<u>4,591,253</u>	<u>3,872,939</u>
Income before taxes	<u>17,141</u>	<u>4,088</u>
Income taxes	<u>(4,600)</u>	<u>4,400</u>
Net income for period	<u><u>\$ 12,541</u></u>	<u><u>\$ 8,488</u></u>
	<u><u>2.5c</u></u>	<u><u>3.9c</u></u>
Loss per common share based on the average number of common shares outstanding during period		
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (UNAUDITED) SIX MONTHS ENDED JUNE 30, 1978 (with comparative figures for 1977)		
	Restated 1977	1978
Funds were provided by:		
Operations	<u>\$ 12,541</u>	<u>\$ 8,488</u>
Net income for period		
Add: Depreciation and amortization		
not involving an outlay of funds		
	<u><u>126,919</u></u>	<u><u>40,653</u></u>
Sale of fixed assets	<u><u>139,460</u></u>	<u><u>49,141</u></u>
	<u><u>5,939</u></u>	<u><u>—</u></u>
	<u><u>145,399</u></u>	<u><u>49,141</u></u>
Funds were used for:		
Additions to fixed assets		
Increase in cash surrender of life insurance of subsidiary	<u>489</u>	<u>489</u>
Reduction in long term debt	<u>2,700</u>	<u>2,700</u>
Dividends		
	<u><u>40,399</u></u>	<u><u>34,572</u></u>
	<u><u>70,892</u></u>	<u><u>97,368</u></u>
Increase (Decrease) in working capital		
Working capital at beginning of year	<u>74,507</u>	<u>(48,227)</u>
Working capital at end of year	<u>1,533,638</u>	<u>1,385,389</u>
	<u><u>\$1,608,145</u></u>	<u><u>\$1,337,162</u></u>